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RUEHIT/AMCONSUL ISTANBUL 3910
RUEKJCS/JOINT STAFF WASHDC
RUEAIIA/CIA WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
RHEFDIA/DIA WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
RHEHNSC/NSC WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEKJCS/SECDEF WASHINGTON DC
RUCNDT/USMISSION USUN NEW YORK 1143
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C O N F I D E N T I A L SECTION 01 OF 04 ASHGABAT 001169

SIPDIS

STATE FOR SCA/CEN; EEB; NEA/IR
ENERGY FOR EKIMOFF/BURPOE/COHEN
COMMERCE FOR EHOUSE

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TAGS: [EPET](#) [PGOV](#) [EINV](#) [ECON](#) [RS](#) [TX](#)
SUBJECT: TURKMEN AND RUSSIAN LEADERS TALK ENERGY--ITERA
GETS PSA

REF: A. ASHGABAT 1142
[B.](#) ASHGABAT 462
[C.](#) ASHGABAT 1159

Classified By: Charge Sylvia Reed Curran, Reasons 1.4 (b) and (d).

[1.](#) (C) SUMMARY. The Turkmen press reported that the September 13 meeting between Turkmen President Berdimuhamedov and Russian President Medvedev in Turkmenbashi cleared the way for renewed Turkmen-Russian economic relations; however, no new gas deal was signed. The EU Tacis-Rep in Ashgabat provided the Charge with additional background information concerning the ongoing gas dispute, summarizing both sides' rationale for delaying a speedy resolution. Press reports indicated that Gazprom and Turkmenengaz engineers continue to study and repair Turkmen pipelines that transport Turkmen gas to Russia, stressing that all technical obstacles resulting from the April gas pipeline explosion were resolved. The Turkmen press did report that the two presidents attended the signing of a production sharing agreement allowing the Russian-based gas company ITERA to develop hydrocarbon resources in offshore Block 21 in the Caspian, which Russian Lukoil and U.S. ConocoPhillips hoped to develop jointly. The Turkmen President hailed the deal with ITERA as an important step toward developing economic relations between the two countries. Turkmen state television company WATAN News also reported that Medvedev accepted Berdimuhamedov's invitation to attend the inauguration of the Turkmen-Russian high school named after Pushkin by the end of this year, creating another presidential face-to-face opportunity for a new gas deal could be signed. END SUMMARY.

CLOSER TO A NEW GAS PRICE?

[2.](#) (C) Since Turkmen gas supplies to Russia were halted in April after a gas pipeline explosion, and given global gas prices have declined considerably along with demand, it seems clear that the two countries failure to arrive at a new gas deal is tied mainly to the price. Russian officials have

reported that the new price for Turkmen gas would be lower, since the global demand for gas has declined significantly. Energy experts estimate that Turkmenistan has already lost over \$5 billion in gas revenues since April, and is digging deep into its reserves until a new gas deal is reached. Although Russian press reports quoted Turkmen President Berdimuhamedov as stating that any new Turkmen gas price offered to Gazprom would be based on an agreed gas formula, the official Turkmen press did not mention a formula. Instead, the Turkmen press described the meeting of the two presidents as a very important step in developing mutually beneficial economic relations, pointing out that the two countries cooperate in the agricultural and transportation sectors and on humanitarian efforts in addition to their well-known cooperation on energy-related projects.

EU TACIS REP ON GAS DISPUTE

13. (C) Michael Wilson, EU TACIS rep, who has been in Ashgabat since the early 1990s, told the Charge that on the evening of September 13 the two sides agreed on the timeline for resuming gas supplies. Wilson asserted the Turkmen did not have a choice; before the dispute with Gazprom, reserves amounted to \$20 billion and now reserves are half that amount. In essence, their investment capital is gone; this is why they have borrowed \$4 billion from the Chinese, he added. Wilson offered that the Turkmen will "rue the day" they went to the Chinese, as the PRC will decide how the \$4 billion will be spent. (NOTE: The local Chevron rep told us that Turkmen Deputy Chairman for Oil and Gas Baymyrat Hojамuhammedov stated that he had become frustrated with the

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"China INC." style of business, in which China came into Turkmenistan and brought all its project support, materials and workers from China. (Ref C) END NOTE.) Wilson opined that the Turkmen always seek to take the easiest way (working with Russia or the Chinese), but in the long run, it would not be in Turkmenistan's best interest.

14. (C) Between June 19-20, Meredov was in Brussels for meetings with the EU, and Wilson pulled Turkmen Foreign Minister Meredov aside, complaining that Meredov had not been honest with the Europeans. Wilson reportedly told Meredov that the EU knew about the loan from China. However, in meetings with Piebalgs and Solana, Meredov acted as if the Turkmen were proceeding entirely on their own. Wilson said that, while the EU had been seeking a relationship with the Turkmen that would last as long as the gas reserves (30-50 years), turning to the Chinese rather than a more serious pursuit of Nabucco seemed like a slap in the face.

MOSCOW TALKS

15. (C) Wilson then provided additional background on Turkmen-Russian gas talks in Moscow prior to the pipeline explosion. According to Wilson, the Russians wanted an agreement to get 90 bcm of gas/year, wanted to increase the capacity of the proposed Caspian Littoral pipeline to 40 bcm, and to have additional pipelines go north. The two sides could not agree on a price, however. In a bilateral meeting with Deputy Chairman for Economy and Finance Tuwакmamet Japarov, Putin reportedly said he would be back in power someday and the Turkmen would be dealing with him; therefore, they had better keep that in mind. Wilson added that Japarov told the Russians that Turkmenistan had done a risk analysis of Russia. Japarov reportedly said "What happens to Russia, happens to Turkmenistan ten times stronger," since Turkmenistan is upstream of Russia. Therefore, the Turkmen needed to understand what was happening to Russia.

16. (C) According to Wilson, the Turkmen proposed that Russia would win the international tenders for the additional northern lines and the Caspian Littoral pipelines. This arrangement would work for both Turkmenistan and Russia;

however, the Turkmen would pay the Russians in gas supplies. This would not be a swap, but it would be at the international price for gas. Nevertheless, in the long run, this would be worth about \$7 billion. To sweeten the deal, the Turkmen would immediately purchase 1,600 Russian tractors and 1,500 Kamaz trucks. Wilson reported that Russians were angry about the Turkmen risk assessment and they did not like this new deal, as a result the pipeline shut off soon followed. Wilson said the Turkmen had only five hours notice before the Russians shut off its valves to Turkmen gas. Wilson also opined that the Turkmen put out the tender for the East-West internal pipeline, without consultations with Russia, which only angered the Russians further.

TURKMEN LEADER IN ECONOMIC DENIAL

¶7. (C) Wilson asserted that Turkmen President Berdimuhamedov managed the gas dispute with Russia and did not take advice from anyone, including Foreign Minister Meredov. Wilson noted that contradicting the President was dangerous, because some former energy officials have lost their jobs when they tried to speak up in the past. Wilson speculated that the Turkmen President most likely thought he had ample currency reserves. Wilson said some Turkmen officials tried to slow down the capital expenditures on construction projects, but were unsuccessful. Wilson laid the blame for the entire gas problem on "poor governance."

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THE NEED FOR A "DEFECTOSCOPY"

¶8. (C) Although following the April 9 gas pipeline explosion, Russian and Turkmen officials publicly blamed each other, current Turkmen press reports described a positive working relationship between Gazprom and Turkmengaz engineers, resulting in the technical process of searching for pipeline defects, or a "defectoscopy" (Ref B). Turkmen President Berdimuhamedov reportedly stated that the last "defectoscopy" was now underway, and that there were no technical problems that would prevent the resumption of Turkmen gas supplies to Russia. The Turkmen have been vehement in their defense of the integrity of the pipeline, initially claiming that the pipeline repairs, needed after the "Russian-induced" explosion, were completed in a number of days. As a result, it was widely believed that the five month delay in resuming gas supplies was due to economic rather than technical reasons. On September 13, the Turkmen President reportedly announced that Gazprom and Turkmengaz engineers had jointly resolved any pipeline insufficiencies that could impede the resumption of gas to Russia.

RUSSIAN ITERA GETS PSA

¶9. (C) In order to convince the public that Turkmenistan and Russia were again ready to strike new energy deals, the two presidents attended the signing of a production sharing agreement for hydrocarbon resources in block 21 of the Caspian. The PSA, signed by ITERA representatives and officials from the Turkmen State Agency for Management and Use of Hydrocarbon Resources, gives ITERA access to an area with potentially 160 million tons of oil and 60 billion cubic meters of gas, according to energy expert predictions. Block 21 was the same block that U.S.-based ConocoPhillips and the Russian company Lukoil had sought to develop jointly, and it is unclear at this time how the PSA with ITERA will affect ConocoPhillips' interest in developing adjacent blocks. In a recent meeting with ConocoPhillips representatives, there was no indication that Lukoil was in imminent danger of losing the opportunity to develop Block 21. In addition, ConocoPhillips was still pursuing the exploration of blocks 19 and 20 on its own (Ref A).

¶10. (C) ITERA is a well-known player in the former Soviet Union with reported ties to Ukrainian Oligarch and RosUkrEnergo (RUE) head Dmitri Firtash, as well as the

Moscow-based organized crime group the Solntsevo Brotherhood.

As a result, the Turkmen decision to allow ITERA to receive a coveted Caspian PSA over more transparent companies, is a major step back in moving Turkmenistan toward more legitimate business practices. It is likely that the PSA with ITERA will come as a disappointment to more aboveboard oil and gas companies struggling to enter a PSA with the Turkmen.

¶11. (C) COMMENT. The September 13 meeting between the Turkmen and Russian presidents comes at a time when relations between the two have hit a particularly rough patch. At the end of the day, Russia needs Turkmen gas at a reasonable price, and Russia is still Turkmenistan's biggest gas customer. Political posturing and the need to save face over the gas dispute have prevented a new deal for more than five months already. However, both sides may be signaling that they've ready to patch things up. Although ITERA had been working on its deal for a long time, awarding the PSA at this particular time was perhaps a sign that the Turkmen are ready and willing to do business with the Russians, provided the terms are "mutually beneficial." In return, Medvedev publicly accepted Berdimuhamedov's invitation to attend the opening of a school in Ashgabat later this year, meaning yet

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another trip to Turkmenistan, but creating another opportunity for the two sign a new gas agreement. END
COMMENT.
CURRAN